MANUFACTURERS HANOVER

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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

A Temporary Foreign Trade Setback

The announcement that the merchandise trade deficit widened in June following three straight months of improvement not only failed to dampen expectations that vigorous export growth would continue to power the current economic expansion, but it even failed to dim the renewed luster of the dollar in the foreign exchange markets. This is because although exports dipped slightly in June compared with May levels, they still stand far higher than in June 1987 and, while the monthly trade deficit may have deteriorated, the red-ink total for the second quarter as a whole was substantially smaller than in the same quarter last year. As a result, with the worsening of the trade deficit in June seemingly more transitory than fundamental, neither today's upbeat economic outlook nor the dollar's recent advance in the foreign exchange markets was seriously challenged.

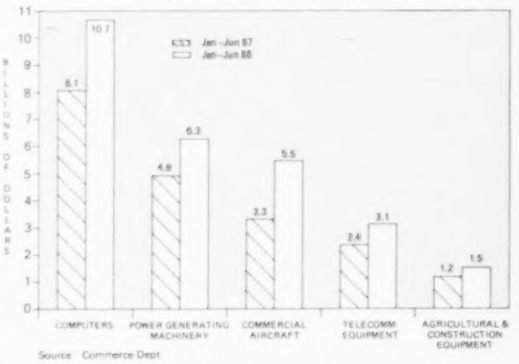
If one were to look at the June trade statistics alone, however, the subdued reaction to these numbers might seem surprising. According to the Commerce Department, the trade deficit widened to a seasonally adjusted $12.54 billion in June, the biggest red-ink total since February, and well above the revised $9.76 billion deficit posted in May. The wider June deficit stemmed from a 2.4 percent dip in exports, particularly of capital goods, month over month, and a sizable upturn in imports of almost everything—the same disappointing combination which produced the huge trade gap in the first place. As if this wasn't bad enough, the individual trade balances with virtually all of our major trading partners worsened in June as well.

As with nearly all economic statistics, too much importance should not be attached to one month's results, and the most recent trade report is no exception. There is still a sufficient amount of good news on the trade front to warrant a cautious optimism that the underlying trend in U.S. trade remains favorable, as well as to justify the prevailing sentiment of the foreign exchange markets that a further, generalized debasement of the dollar is no longer a necessary, or even a desirable, prerequisite for additional trade gains.

Some Bright Spots

For one thing, the potentially negative implications of a wider trade deficit in June were largely neutralized by a hefty downward revision of the May trade gap. Initially estimated at $10.9 billion, this figure was subsequently lowered to $9.76 billion, the smallest monthly red-ink total in 3½ years. This helped to lower the average monthly trade deficit in the second quarter to $10.9 billion, a figure more than 20 percent below the $14.1 billion monthly average in the second quarter of 1987, and 30 percent smaller than the peak monthly trade deficit of $15.6 billion posted in October 1987.

U.S. EXPORTS BY PRODUCT GROUP
JAN–JUN 1988 VS. JAN–JUN 1987



Source: Commerce Dept.

For another, there is little evidence that the current export boom is running out of steam. Exports still totaled nearly $27 billion in June, despite the modest monthly dip, or more than 30 percent higher than the $21 billion June 1987 level. What is more, the export surge is increasingly broad based, a good sign since it is not just limited to a handful of once-in-a-decade commercial aircraft shipments or stepped-up sales of temporarily higher-priced agricultural commodities.

As shown in the chart, it encompasses a wide array of products ranging from agricultural and construction machinery to telecommunications equipment to computers—all of which had suffered a severe erosion of global price competitiveness due to the relentless ascent of the dollar's external value prior to

Manufacturers Hanover Economics Department 17/270

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February 1985. These products are now reclaiming lost market share and, since fat manufacturers' backlogs exist for many of these same products, it appears safe to assume that a sizable chunk of today's backlogs will be tomorrow's exports.

There is even some good news on the import side of the ledger, notwithstanding the fact that imports in June ran at a record high level of $39 billion. Reflecting the sweeping shift in the composition of economic growth in recent quarters, particularly the surge in investment spending and the flattening of consumer outlays (Financial Digest–August 15, 1988), the import mix has begun to shift as well. Capital goods imports, for example, accounted for nearly $1 of every $4 spent on foreign goods in June, up from about one fifth in June 1987.

The importance of this change should not be overlooked. Whereas the United States has been routinely criticized for years for consuming beyond its means, this argument is becoming increasingly stale, as an ever-larger proportion of overseas spending is devoted to products which add to productive capacity and labor efficiency—the wherewithal, in fact, to enhance global competi-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/10/88)	188,107	+ 1,086	+ 17,164
New York City (8/17/88)	38,260	– 134	+ 1,179
Commercial Paper (8/17/88)	419,868	+ 307	+ 73,805

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/10/88)	299,992	+ 16	+22,441
New York City (8/17/88)	56,951	– 1,149	+ 543

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/10/88)	897,735	+ 2,381	+70,768
New York City (8/17/88)	175,965	– 1,956	+ 4,058

Financial Markets

	Friday 8/26/88	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.55%	+ .28	+ 1.07
180-Day Bills†	7.87	– .05	+ 1.25
Longest Bills†	8.30	+ .06	+ 1.13
Recent Issues:			
8⅝S 8/31/90 (When Issued)	8.75	NA	
8¼S 6/30/92	8.99	+ .05	
9¼S 8/15/98	9.37	+ .04	
9⅛S 5/15/18	9.43	+ .03	
Municipals:			
Bond Buyer–20 Bond Index* (8/25/88)	7.80%	– .05	–0–
Blue List Total ($ Million)	$1,427	+ $119	– $345
30-Day Visible Supply ($ Million)	$ 786	– $428	– $198
Total	$2,213	– $309	– $543
Corporates:			
Moody's Aa Composite (8/25/88)	10.42%	+ .02	+ .53
30-Day Visible Supply ($ Million)	$5,177	+ $430	+ $690
Stocks:			
***Dow-Jones Averages:**			
Industrials	2,017.43	+ 1.43	–621.92
Transportation	839.01	– 5.82	–223.03
Utilities	177.69	+ .35	– 27.32
65 Stocks	755.45	– .95	–208.43
N.Y.S.E. Composite Index	147.24	– .30	– 35.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	118,412	– 26,148	–57,402

*34% Taxable equivalent 11.82%. † Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/26/88	Week Ago
Overnight	7.88%	7.81%
1 month	8.25	8.25
3 month	8.63	8.56
6 month	9.00	8.88
1 year	9.25	9.13

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/26/88)	Currency Per U.S. $	Week Ago
Belgium	39.04	39.74
Canada	1.2368	1.2237
France	6.3395	6.4300
Germany	1.8625	1.8962
Italy	1384.50	1405.00
Japan	133.83	133.45
Mexico	2273.00	2273.00
Netherlands	2.1035	2.1410
South Korea	721.70	722.70
Switzerland	1.5721	1.5955
Taiwan	28.70	28.62
U.K.*	1.6855	1.6996

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (8/26/88) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.2%	–0.6%

tiveness and to continue to export our way out of the current trade deficit. What is more, with operating rates in most domestic capital goods industries trending decidedly higher, and investment spending showing no sign of letting up, the availability of foreign capital goods plays an important role in sidestepping potential capacity bottlenecks.

A Stable Dollar?

These reasons partially explain why the foreign exchange markets looked beyond the June trade data and, within hours of their release, were again aggressively bidding the dollar higher. And, why not? With the trade picture brightening, the dollar's downside potential seems limited, as has proved to be the case for months now.

So, too, with the economy expanding vigorously and inflation accelerating, additional monetary policy restraint and higher interest rates seemed a sure bet—extending the limits of the dollar's upside potential. Or, so it appeared. However, the news that consumer prices rose only modestly last month and that big-ticket factory orders sagged in July could help keep a lid on interest rates here at the same time that they are rising abroad, delaying further dollar appreciation. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/24/88	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	229,450	– 1,484	+15,313
Loans to Depository Inst.	3,222	– .045	+ 2.310
Float	2,630	– .081	+ 2.500
Total Reserve Bank Credit	250,053	– 2.029	+19.067
Treasury Deposits with Federal Reserve Banks	3,116	+ .440	–0–
Currency in Circulation	235,641	– .825	+19,114
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	225.105	+ .039	+43.028
	8/24/88		
Member Bank Reserves			
Total Reserves Held	60,652	– .139	+ 3.335
Excess (Deficiency)‡	1,025	+ .222	– .148
Net Free Reserves	451	+ .239	– .131

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	‡ % Change Since Year Ago
M1 (8/15/88)	780.0	+ 4.8	+ 4.9
M2 (8/15/88)	3,027.5	+ 4.0	+ 5.5
M3 (8/15/88)	3,823.4	+ 5.2	+ 6.0
Domestic Nonfinancial Debt (1st Q'88)	8,541.7	+ 8.3	+ 9.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/26/88	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.28%	7.49%	7.73%
* Federal Agencies	8.15	8.20	8.20
* Municipal Notes—High Grade (34% Taxable Equivalent)	8.71	9.09	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.55	8.95	9.15

‡ Finance Company Paper—Prime

5- 14 days	7.70%
15- 29 days	7.95
30- 59 days	8.13
60- 89 days	8.20
90-179 days	8.10
180-239 days	7.90
240-270 days	7.90

‡ Industrial Paper—Prime

30- 89 days	8.27%
90-120 days	8.43

‡* Bankers' Acceptances

Sep.	8.17%
Oct.	8.27
Nov.	8.37
Dec.	8.42
Jan.	8.52
Feb.	8.52

† Federal Funds Effective Rate 8.15%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'88	$ 4,820r	$ 4,725	$ 4,484
Gross National Product (1982 Dollars)*	2nd Q'88	$ 3,988r	$ 3,956	$ 3,823
Percent Change, Annual Rate	2nd Q'88	3.3r	3.4	5.0
Change in Consumer Prices*	Jul '88n	4.8%	3.6%	3.6%
Change in MH Cost of Living Index	Jul '88n	7.2%	4.8%	1.2%
Change in Producer Prices*	Jul '88	6.0%	4.8%	3.6% r
Civilian Employment (Thousands of Persons) †	Jul '88	115,059	115,018	112,639
Unemployment as % of Civilian Labor Force †	Jul '88	5.4%	5.3%	6.0%
Personal Income	Jul '88n	$ 4,071	$ 4,046r	$ 3,779
Leading Indicators Composite Index (1967=100)†	Jun '88	194.0	191.3	190.5
Industrial Production Index (1977=100) †	Jul '88n	137.7	136.6	130.6
Net Change in Consumer Installment Credit †	Jun '88	$ 5.43	$ 2.98	$ 6.65
U.S. Merchandise Trade Balance †	Jun '88n	–$ 12.54	–$ 9.76	–$ 15.06
Plant and Equipment Expenditures*	3rd Q'88	$438.22(a)	$429.01(a)	$393.13
Private Housing Starts (Thousands of Units)*	Jul '88n	1,489	1,454	1,594
New Construction Expenditures*	Jun '88	$ 402.8	$ 402.3	$ 392.6
Total Business Inventories †	Jun '88	$ 733.9	$ 729.0	$ 680.5
Total Business Sales †	Jun '88	$ 490.6	$ 483.6	$ 453.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

MANUFACTURERS HANOVER

Combined Strengths

CIT TODAY

Second-quarter earnings double those of '87.

The CIT Group, a non-bank subsidiary of Manufacturers Hanover Corporation, reported second-quarter earnings of $31.8 million—more than double the $13.9 million earned in the 1987 quarter. Net income for the first six months of 1988 was $62.0 million versus $38.3 million last year—up 61.8 percent. Finance receivables were $10.4 billion.

"The results at CIT begin to underscore the potential of this organization," says John F. McGillicuddy, MHC Chairman and Chief Executive Officer. "In addition to efficiencies effected through the restructuring of CIT, charge-offs and operating expenses are substantially below last year's levels."

Comments Albert R. Gamper, Jr., Chairman and Chief Executive Officer of CIT, "In overhauling our business strategy, we made some dramatic changes in the way we traditionally did business. It's apparent our planning is paying off."

Strength on strength.

When we acquired CIT in 1984, it was already the premier source of asset-based financing. In order to strengthen and broaden the product offerings of CIT, two existing major non-bank subsidiaries of Manufacturers Hanover Corporation were transferred into The CIT Group.

Today, CIT is even more streamlined, performance-driven and profitable, with a strong emphasis on credit quality and lower operating expenses.

"It was the very prospect of combining our strengths with CIT's that excited us the most about the acquisition," states Mr. McGillicuddy. "That prospect has now been fulfilled."

Sharper market focus.

In response to market changes and growing competition, CIT is now focusing its activities on three major market segments: Corporate Finance, which includes business credit, capital financing, and equipment and project financing; Dealer and Manufacturer Financing, which includes industrial financing and sales financing; and Factoring. These products are available throughout our nationwide network of 55 offices in 21 states.

"We have in place a broad based business finance company and that's what it should be—broad in geography and product reach," Mr. Gamper emphasizes. And then adds, "I expect CIT to surpass the earnings called for in our strategy for 1988."

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